

Message Text

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13-12

ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 EPA-01 /093 W

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R 060300Z APR 76

FM AMCONSUL FUKUOKA JA

TO SECSTATE WASHINGTON DC 549

AMEMBASSY TOKYO JA

STATE

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E.O. 11652: N/A TAGS: ENRG, JA, CH

SUBJ: KYUDEN SLIPS AROUND PRC CRUDE

BEGIN SUMMARY: PRESS REPORTS HAVE MENTIONED GOVERNMENT PLANS TO HELP BALANCE TRADE WITH CHINA BY INCREASING IMPORTS OF CHINESE CRUDE OIL FOR USE BY THE ELECTRIC UTILITY COMPANIES IN JAPAN. THE POST'S E/C OFFICER RECENTLY DISCUSSED THE MATTER AT LENGTH ON TWO OCCASIONS WITH KYUSHU ELECTRIC (KYUDEN) OFFICIALS. KYUDEN IS RELUCTANT TO INCREASE ITS USE OF PRC CRUDE, CITING THE NECESSITY OF ADDITIONAL POLLUTION CONTROL EQUIPMENT AND PLANT MODIFICATIONS BECAUSE OF ITS HIGH PARAFFIN CONTENT. IN ADDITION, THEIR FEAR THAT CHINA WOULD NOT BE A RELIABLE SUPPLIER IS A

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FOMIDABLE OBSTACLE. END SUMMARY.

1. KYUSHU ELECTRIC (KYUDEN) SERVES ALL SEVEN PREFECTURES IN KYUSHU. IT IS THE SIXTH LARGEST OF THE NINE MAIN ELECTRIC POWER COMPANIES IN JAPAN, WITH A TOTAL INSTALLED CAPACITY OF 6,240 MW. IT HAS A MYRIAD OF PLANTS RANGING FROM DIESEL GENERATORS ON SMALL OUTLYING ISLANDS TO THE 559 MW GENKAI ATOMIC POWER PLANT. IT GENERATES FROM ALL ENERGY SOURCES: HYDROELECTRIC, COAL,

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GEO THERMAL, OIL, AND ATOMIC, BUT BY FAR THE LARGEST SOURCE OF

ENERGY IS OIL, WHICH IS USED TO PRODUCE ABOUT 70 PERCENT OF KYUDEN'S TOTAL OUTPUT.

2. KYUDEN CURRENTLY USES 6.5 MILLION KILOLITERS OF OIL A YEAR. SIX MILLION COME FROM THE MIDDLE EAST, 400,000 FROM INDONESIA, AND 100, 000 FROM CHINA. SO FAR IT HAS BEEN ABLE TO USE A COMPARATIVELY LARGE AMOUNT OF HIGH-SULPHUR MIDDLE EAST CRUDE BECAUSE MANY OF ITS PLANTS ARE IN RUAL LOCATIONS, WHERE PRESSURE FROM ENVIRONMENTALISTS IS NOT AS GREAT AS IN DENSELY POPULATED AREAS. HOWEVER IT EXPECTS TO HAVE TO USE MORE LOW SULPHUR CRUDE AS THE POPULATION OF KYUSHU INCREASES. CHINA AND INDONESIA STR THE MOST LIKELY SOURCES OF FUTURE LOW-SULPHUR CRUDE SUPPLIES.

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3. KYUDEN OFFICIALS CITED SEVERAL PROBLEMS WITH CHINESE CRUDE AND INDICATED THAT ALTHOUGH THEY COULD USE IT IF THEY HAD TO, THEY HOPE TO AVOID DOING SO. ONE MAJOR PROBLEM WITH CHINESE CRUDE IS THAT WHILE IT HAS LOW SULPHUR CONTENT, IT PRODUCES A HIGH LEVEL OF NOX COMPOUNDS. INCREASED USE OF CHINESE CRUDE WOULD NECESSITATE MORE INVESTMENT IN NOX POLLUTION CONTROL EQUIPMENT. NOX CONTROL TECHNIQUES ARE NOT AS WELL DEVELOPED AS THOSE FOR CONTROLLING SULPHUR EMISSIONS AND THE COMPANY IS RELUCTANT TO MAKE HEAVY INVESTMENTS IN EQUIPMENT THAT MAY SOON BE OBSOLETE.

4. ANOTHER PROBLEM IS THE HIGH PARAFFIN CONTENT OF CHINESE OIL. MANY OF KYUDEN'S PLANTS BURN UNREFINED CRUDE WHICH HAS LESS SULPHUR THAT REFINED FUEL OIL. HOWEVER, THE THICKER CHINESE CRUDE CANNOT BE USED WITHOUT EXPENSIVE MODIFICATION OF KYUDEN PLANTS.

5. THE THIRD MAJOR PROBLEM MENTIONED BY KYUDEN IS THE RELIABILITY OF CHINA AS A SUPPLIER OF CRUDE. ALTHOUGH THEY ACKNOWLEDGE THE NECESSITY OF DIVERSIFYING THEIR OIL SUPPLIERS, THEY FEEL THAT BARRING ANOTHER MIDDLE EAST WAR, ARAB COUNTRIES WILL CONTINUE TO SELL OIL ON THE WORLD MARKET. ON THE OTHER HAND,

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CHINA IS NOT PRIMARILY MOTIVATED BY ECONOMIC FORCES AND POLITICS ARE THE MAJOR CONSIDERATION IN THEIR EXPORT POLICIES. BECAUSE OF THIS UNCERTAINTY, THEY FEEL THEY CAN EXPAND THEIR USE OF CHINESE CRUDE ONLY TO THE POINT WHERE FLUCTUATIONS IN SUPPLY WILL NOT IMPAIR THEIR ABILITY TO MEET THEIR CUSTOMERS' DEMANDS FOR ELECTRICITY.

6. IN SHORT, WHILE KYUDEN COULD USE MORE CHINESE CRUDE IF IT HAD TO, IT IS NOT ENTHUSIASTIC ABOUT THE PROSPECT. THE INVESTMENT

IN ADDITIONAL POLLUTION CONTROL EQUIPMENT. THE NEED FOR BOILER
MODIFICATIONS, AND THE UNRELIABILITY OF SUPPLY MAKE KYUDEN WARY
OF MORE CHINESE CRUDE.

COMMENT: DESPITE NEWSPAPER REPORTS THAT THE CENTRAL GOVERNMENT
IS GOING TO PRESS UTILITIES TO USE MORE CHINESE CRUDE, IT SEEMS
KYUDEN WILL SIGNIFICANTLY EXPAND ITS PURCHASES FROM THE PRC
ONLY IF LEANED ON RATHER HEAVILY BY THE POWERS THAT BE IN TOKYO.
END COMMENT.

RICHARDSON

GDS-82

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, IMPORTS, PETROLEUM
Control Number: n/a
Copy: SINGLE
Draft Date: 06 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976FUKUOK00066
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760134-0481
From: FUKUOKA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760494/aaaadcgd.tel
Line Count: 125
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAY 2004 by buchant0>; APPROVED <21 SEP 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KYUDEN SLIPS AROUND PRC CRUDE BEGIN SUMMARY: PRESS REPORTS HAVE MENTIONED GOVERNMENT PLANS TO
TAGS: ENRG, JA, CH, KYUSHU ELECTRIC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006